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BULLISH FORECAST FOR THE AMAZING EIGHTIES

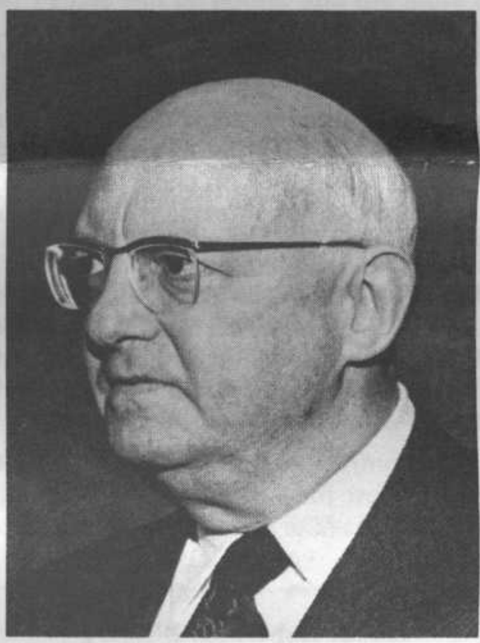
By Robert M. Bleiberg

Editor's Preview: To live by the crystal ball, *Barron's* editor Robert Bleiberg admits, is to risk eating ground glass. But his life's work as a shrewd observer of world economic trends emboldens him to forecast that the recent rebound in prosperity is the start of something big.

Since the onset of business recovery in late 1982, the U.S. has become the envy of the Western world by creating more than six million jobs. OPEC has slashed the price of crude oil by more than five dollars, and may be compelled to do so again. Family formation has staged a comeback. Inflationary pressures from organized labor have cooled.

These and other signs prompt the author to predict boom decades ahead for humanity—just the opposite of Carter's infamous *Global 2000* report describing a world where people will be poorer and life more precarious. Bleiberg cites advances in technology, expanding supplies of food and resources, declining pollution, and rising life expectancy worldwide, as evidence supporting his bullish forecast.

The Amazing Eighties, he says, will open fresh opportunities both financial and philosophic for Americans. Downbeat journalism will be correspondingly discredited. Political party differences may prove less significant than many assume, as the coming boom rolls on.



Today, as in the past, business continues to confound the so-called experts. Some two and a half years ago, for example, in the spring of 1982, every economist worth his salt agreed that the slump was rapidly coming to an end. To illustrate, in its issue of May 10, 1982, *Business Week* ran a cover story headlined: "Here Comes the Recovery."

I'm a devout believer in the doctrine of contrary opinion, and as such I had no trouble whatever at the time in making up my own mind which way business was going—clearly nowhere but down. And so it did—right through the end of November 1982, when, according to the National Bureau of Economic Research, which acts as a kind of official scorekeeper, the recession hit bottom and recovery began.

Incidentally, among its other claims to fame, *Barron's* can point with pride to having called the latest turn in the cycle: on November 22, 1982, we ran an editorial commentary headlined "Onward and Upward? Amid Persistent Gloom, Business Recovery Is Looming." Six months later, on June 27, 1983, when a good many observers were still voicing qualms and doubts about the durability and strength of the recovery, we climbed even further out on a limb with a follow-up editorial commentary headlined: "Let the Good Times Roll—Business Recovery Promises to Better Most of the Forecasts."

The Start of Something Big

The fact is that several key pieces of the puzzle, which were significantly missing in the spring of 1982, by autumn had unmistakably fallen into place. One, of course, is interest rates, which, after stubbornly resisting the law of gravity, at long last did what they had to do, namely, go down; by half a dozen full percentage points.

Imprimis is the journal of Hillsdale's two outreach programs seeking to foster clear thinking on the problems of our time: the Center for Constructive Alternatives in Michigan and the Shavano Institute for National Leadership in Colorado. Pronounced with a long "eye" in the middle, the name means "in the first place" from Latin. Established 1972; current circulation 108,000 worldwide. A subscription is free on request.

The drop in interest rates, in turn, triggered a huge advance in the stock market. Since mid-August, 1982, when shares hit a two-year low, they have surged by over 50% across the board. To be more specific, look at what's happened to the Wilshire 5000 Index, which measures the total market value of all the shares listed on the New York Stock Exchange, American Stock Exchange and traded actively over the counter. On Thursday, August 12, 1982, the Wilshire 5000 closed at $1,051 billion. That day, for a little over a trillion dollars, you could have bought all of American commerce and industry. At the temporary peak reached 12 months later, the Wilshire had hit an all-time high of $1,822 billion.

Even after the sharp correction of the past 12 months or so, the Wilshire Index closed on Friday, October 26, 1984, at $1,688 billion. So since the lows, investors are better than $600 billion ahead of the money game. And the "wealth effect" of all that money, whereby people who feel richer and (at least on paper) are richer tend to spend more freely, helps to explain the unusual thrust behind the business recovery.

Moreover, the advance has been not merely powerful but also global. In fact, foreign stock markets lately have been far outpacing Wall Street. Even after the recent burst of strength, the Dow Jones Averages in October 1984 were still showing minus signs for the year to date.

In striking contrast, Capital International's Europe, Australia, Far East Index is up half a percentage point or so in U.S. dollars (and nearly 10% in local currencies).

About Robert M. Bleiberg

Robert Bleiberg joined *Barron's National Business and Financial Weekly* four decades ago, in 1946, as associate editor. In 1954 he became its editor, in 1980 vice president of the Dow Jones magazine group, and in 1982 editorial director and publisher of *Barron's*.

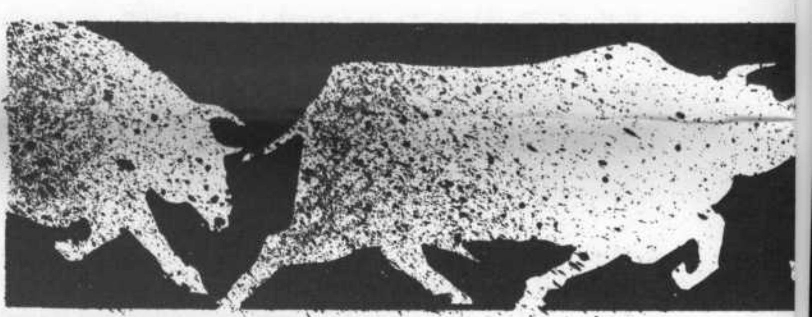
He has taken the magazine from a circulation of 50,000 to its current 265,000, garnered many awards for its reporting, and earned wide business and political influence with his weekly editorials.

Mr. Bleiberg holds a bachelor's degree in economics from Columbia College, a master's in business from the New York University, and an honorary doctorate from Hillsdale College.

A favorite at Hillsdale for his past contributions to the Ludwig von Mises Lecture Series and the pages of *Imprimis,* he lectured at Hillsdale's first Shavano Leadership Summit in 1982 and now serves as a Distinguished Fellow of the Shavano Institute. He delivered this paper at a Shavano seminar in Hilton Head, South Carolina, on October 30, 1984.

Half a dozen bourses, notably those of Belgium, France, Hong Kong, Japan, The Netherlands, Norway and Spain, show solid gains (in dollars) for 1984 to date. Indeed, since January 1, 1984 a dozen major stock markets—including Amsterdam, Copenhagen, Frankfurt, London, Oslo, Paris, Singapore, Stockholm, Sydney, Taipei, Tokyo and Zurich—have hit all-time highs. In the light of such persistent strength in equities throughout the world, Wall Street, it strikes me, has been merely taking a breather in a continuing bull market.

Throughout the world, in short, the markets have been saying loud and clear that this may be the start of something big. However, popular perceptions, among professional economists, bureaucrats, and even business



executives—not to mention the man and woman in the street—have shown an astonishing tendency to lag behind events.

At a meeting of the Business Council, held in Hot Springs, Virginia, in May of 1983, just when the U.S. recovery was shifting into high gear, spokesmen for the 100 top chief executives on the scene called the upturn uneven, patchy and fragile—and in danger of fizzling out in a year or so.

Likewise, in a public-opinion poll taken in the spring of '83 by *The New York Times* and CBS, only 42% of those queried thought that the recession was over! That's very much like the findings of a Gallup Poll taken in early 1975, which disclosed that more than half the American people—right at the start of a five-year upswing in business—were fearful of depression. Talk about the virtues of contrary opinion.

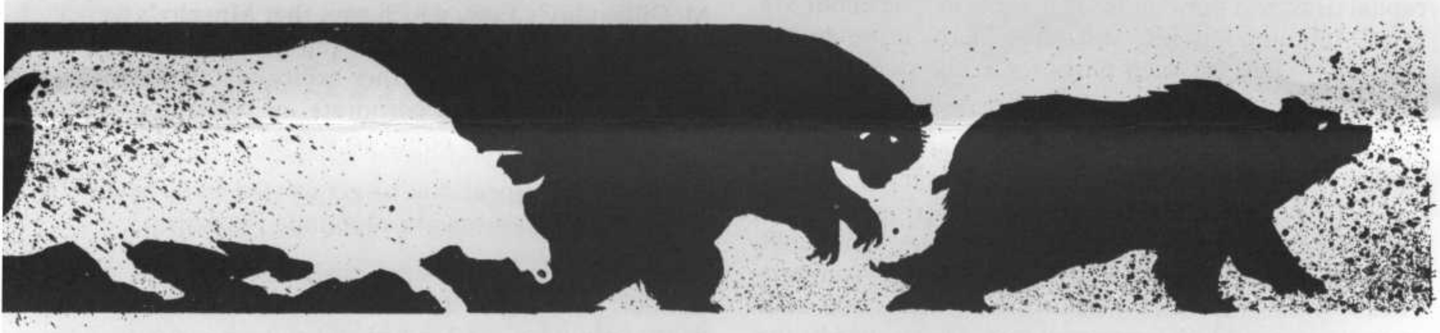
And let's not forget the downbeat media, which (with a handful of exceptions, notably *Barron's Weekly* and its sister publication, *The Wall Street Journal)* rarely manage to see anything but the dark side of events. That's especially true today, when so many journalists, both at home and abroad, despise supply-side economics, not to mention Reaganomics, and have a kind of vested interest in seeing them come to grief.

Take the way the television networks have covered one of the greatest success stories in recent years, the sharp drop in unemployment and creation of a record-breaking six million jobs since the upturn began. As the head of the Chamber of Commerce recently observed: "If Thomas Edison were to invent the light bulb today, the

'CBS Evening News' would lead off with Dan Rather somberly announcing that 'disaster has just struck the candlestick industry'."

Interest Rates: Room on the Downside

Let's talk a bit more about interest rates, which will play so decisive a role in shaping our economic future. As somebody once wrote about speculation in commodities: "Any time you wake up in the morning and you feel like buying or selling a cocoa contract, roll right around again and go back to bed." That's equally good advice for those who are foolhardy, rash or brash enough to think they can predict interest rates. No wonder Confucius say that he who live by crystal ball must learn to swallow ground glass.



Nonetheless, I'll follow my own good advice—if you must make forecasts, make a lot of 'em—and offer you an interest-rate scenario of my own. I think both short- and long-term rates have hit a significant peak and may well be lower, not higher, by early 1985. I think the recent full percentage point cut in the prime rate, from 13% to 12%, is just the beginning of a sizable slide in this key rate.

In so saying, I'm painfully aware that I'm bucking a massive weight of expert opinion, as well as the odds. Yet I still think there's room on the downside. Increases in labor costs are still measured in the low single digits—more on that in a moment—while commodity prices in general, notably oil, remain either lackluster or weak. Hence, the price indices in coming months will continue to show relatively small upticks.

Second, as we begin a new fiscal year, the federal budget deficit unmistakably is on the way down. True, observers who don't keep an eye on the numbers are still talking of $200 billion-dollar federal deficits. In fact, we wound up last fiscal year at around the $175 billion mark. As for the current fiscal year, the Office of Management & Budget, which consistently has erred on the high side, projects a federal deficit slightly lower, at $165 billion. And don't ignore the fact that as a major offset, state and local governments are chalking up a surplus that will probably exceed $50 billion in the current fiscal year.

There's a third reason for not joining the anvil chorus of gloom and doom on interest rates: like all of its predecessors, this business recovery will not proceed in a straight line. After racking up extraordinary, and unsustainable, gains in real economic growth for the past few quarters—nearly 10% in the second quarter of last year, 8% in the third, 5.5% in the fourth, a smashing 10.1% in the first quarter of 1984 and 7.1% in the second—business activity now unmistakably has begun to ease. In the third quarter, the gain in real output of goods and services has just been revised downward from 3.6% to 2.7%. For the fourth quarter of 1984—and the first three months of 1985—let's move down another notch, say to 1-2%. A flat quarter early in 1985 wouldn't surprise me.

Investors' Confidence in Reagan

What impact will the election have on either business prospects or the scenario I've just outlined? On a short-term basis, little or none. Regardless of who wins on November 6, in my view, a significant slowdown in business activity, which may well last through the winter, is built in. However, further down the road—say, by next spring—the election returns probably will begin to make quite a difference.

I say so with reluctance. I think one can greatly exaggerate the differences, especially in fiscal policy, between the two parties. Nonetheless, as we've already seen with respect to business activity, perceptions sometimes loom larger than realities. And in the world's financial centers, the perceptions clearly favor Republicans over Democrats. In a survey just taken by a leading Wall Street investment banking firm of businessmen and bankers throughout the Continent, 88% of those queried said that President Reagan would be a better bet than his opponent to foster U.S. economic growth.

Hence, should Mondale win, I would expect the dollar to suffer an abrupt sinking spell and stock and bond markets throughout the world to decline. In turn, such an adverse response in the marketplace would undoubtedly make it harder for the recovery to regain its momentum in 1985.

Contrariwise, with President Reagan re-elected, political uncertainties will dwindle. Whatever changes in the tax code are proposed almost certainly will not rescind the vital measures which, by improving corporate cash flow and encouraging venture capital, have done so much in so short a time to revive entrepreneurial spirits and to create jobs. In such circumstances, the recovery by mid-year would probably be alive and well—and

›ised for a solid stretch of sustainable economic growth.

'ore Families, Longer Lives

On a long-term basis, there are some very good reasons ›r being bullish on America. To begin with, from the andpoint of population trends, the 1980s shape up as otentially one of the greatest decades since the Baby oom peaked in the late '50s. For a long time, you kept ading about the new morality and the looming demise f family ties. Now, however, even the politicians of both arties have discovered that the sexual revolution is over nd that the family has made a comeback. So, of course, ave the judges of the Miss America Contest.

In 1982, to illustrate, 2.5 million American men and omen tied the knot, the greatest number of marriages 1 U.S. history. Last year, the total slipped a bit, to 2.4 iillion, but that's still a highly respectable figure. Con-:ariwise, in 1982 the number of divorces dropped 3%, o roughly 1.2 million, the first decline in 20 years. And ast year the drop continued.

Naturally enough, something resembling a modest aby boom is under way. The number of newborns hit postwar low of 3.1 million in 1973. In the past two ears, the figure has been running at roughly 3.7 million. t's expected to stay at current levels in 1985-1990. That vould come within hailing distance of those glory ›ostwar years. In an affluent society, of course, there's 10 more powerful economic and social force than family ormation and population growth.

And at the other end of the demographic scale, the iews is equally good: despite all the scare talk to the con-rary, Americans are growing healthier and living longer.

That may come as a surprise. Owing to the dominance of downbeat journalism in the television networks and on oublic television, a constant barrage of propaganda is beamed at public opinion. Year in and year out, the iewers are warned that pesticides cause cancer, that hemical additives are poisoning our food and water and hat nuclear power is a catastrophe just waiting to iappen.

Rarely does one find a hint of the fact that since 1900, hanks in large measure to scientific and medical ad-vances made possible under free enterprise, the life span of the average American has increased from 46 years to '4.5 years; or that in the past decade alone, it has gone ip twice as fast as ever before. This is in striking contrast vith the Soviet Union, where the life span has been dropping—to 62.5 years by latest reckoning.

.abor Climate Becomes Less Inflationary

Want another reason for long-range optimism? How bout the sharp decline in the influence of organized abor, perhaps one of the most powerful forces for infla-ionary public policies in the land. According to the latest indings of the Department of Labor, between 1978 and 980, union membership plunged by 552,000 to 2,280,000, lowest since 1973. In 1984, the Bureau of National Affairs put the total union membership at just 19.8 million. Today, in short, fewer than one worker in five carries a union card.

For the first time in many years, moreover, the AFL-CIO has fallen afoul of a law which, appearances to the contrary notwithstanding, has never effectively been repealed: the law of supply and demand. In one line of work after another, expectations, following the rate of inflation, have been lowered, and wage demands curbed. According to the Bureau of Labor Statistics, in 1982, major wage agreements covering some 3.6 million workers called for wage increases of 3.8% in the first year and 3.6% over the life of the contract, down sharply from 7.9% and 6.3%, respectively, in the previous 12-month period.

And although we're now two years into a powerful new upswing, the downtrend has persisted. In 1983, settlements reached called for first-year pay increases of only 1.7%. Over the life of the contracts, annual gains would run to only 2.8%. Both figures, by the way were the lowest in the 15 years the agency has been collecting such data.

As to 1984, from January through September, major collective bargaining contracts called for wage increases of only 2.5%, and no more than 2.8% over the life of the contracts. Those figures contrast strikingly with the 8% and 7% settlements reached in the pacts they replace.

And just look at the wage settlement that General Motors has just negotiated with the United Auto Workers —a wage increase of only 2.25% per year (plus cost-of-living adjustments), over the next three years.

Moreover, the give-back—a term virtually unknown in wage negotiations until the onset of the '80s—remains alive and well. In 1983, the steel and automotive industries scored noteworthy give-backs: in steel, on an industry-wide basis, and in autos, Ford Motor Co. at River Rouge. Now it's the airlines' turn: 15% cut in pay at Eastern, 50% at bankrupt Continental. American Airlines has gone the two-tier route, winning the right to hire new personnel at half the going rate. Similarly, Greyhound broke an angry, costly and violent strike early in 1984 to win a 15% cut in drivers' wages and fringe benefits.

Energy Prices Continue Falling

Need a third reason why the 1980s are shaping up in such promising fashion? Just weigh the vast changes that have taken place in the realm of energy. A few years ago, after all, our Chief Executive, wearing a heavy sweater, went on television to warn the country that energy crises and crunches loomed from here to eternity, that long lines at the gasoline pumps were something that we'd have to live with forever and that if we weren't careful, we'd all run the risk of freezing in the dark. Since those dismal days, as you know, a vast change for the better has occurred, and in my view it's irreversible.

In fact, *Barron's* long ago went on record as predicting a series of reductions in the price of crude oil to levels well below the \$34 a barrel that prevailed at the time. Since then, OPEC has cut its price, twice, officially to \$29 a barrel and unofficially in recent weeks to \$26-\$27 a barrel.

Where do we go from here? Why, onward and downward. True, the Saudi Arabian oil minister, Sheikh Ahmed Yamani, has been running around the world trying to twist arms and prop up prices for OPEC. I think he'll have roughly the same success as King Canute. I would offer even money that a year from now crude oil will be selling for closer to \$20 than \$30 a barrel. For the amazing fact is that two years along in a powerful world economic recovery, demand for oil is running barely 2% ahead of recent levels, while supplies everywhere on earth continue to mount.

Hence, with some help from the late Herman Kahn, I'm willing to risk a longer-range forecast. Back in mid-1982, when gloom and doom were rampant, this great man published what was destined to be his last major work. He called it *The Coming Boom.*

"The Coming Boom" vs. "Gloom 2000"

Kahn offered a dozen reasons why the decade of the 1980s would be far more productive and prosperous than the decade or two that preceded it. Let me quote to you from the preface of his book:

> As I send this book off to the publisher, the Dow Jones [Industrial] Average has plunged to its lowest level in about sixteen months. Other more broadly based stock averages have fallen by similar amounts. U.S. long-term bonds are paying about 15 percent interest; the bond futures market (driven by what is often thought of as the 'smart money') and some financial experts suggest that high interest rates will be maintained for many years—perhaps decades.
>
> Estimates of the fiscal 1982 deficit have more than doubled. In addition, the Reagan tax cuts, coupled with fears of runaway defense spending, seem to many to be likely to force even larger deficits in the future. Some sober concern, if not paranoia, is clearly justified. It does not seem like a good time to publish a book called *The Coming Boom: Economic, Political, and Social...*
>
> But unless my prognostications are disastrously wrong, a revitalized America—revitalized in terms of traditional values, of worldwide status and influence, and of citizenship and morale, as well as of economic improvement—seems to me very probably, and with sensible social and economic policies, a near certainty.

And just look at what's happened in the past two years. Since the onset of business recovery in late 1982, the U.S. has become the envy of the Western world by creating more than six million jobs. OPEC has slashed its benchmark price for crude oil by five dollars a barrel, and may be compelled to do so again. Family formation has staged a comeback.

Contrast this track record with that of the ecological alarmists and no-growth groupies who inspired (and contributed to) such flawed visions of the future as the Club of Rome's notoriously inaccurate tract, *The Limits to Growth,* or the dismal prophecies contained in an official study, the *Global 2000 Report to the President,* which the Carter Administration admiringly viewed as a kind of monument to its domestic policies. *Global 2000,* which drew on the talents of the best and brightest in a dozen federal agencies, reached the following grim conclusion: "If present trends continue, the world in 2000 will be more crowded, more polluted, less stable ecologically and more vulnerable to disruption than the world we live in now. People will be poorer and life more precarious."

That's a fitting monument to Jimmy Carter and Walter Mondale, under whom the U.S. was swiftly sliding to the status of a second-class power. On the contrary, argues a new study—*The Resourceful Earth: A Response to Global 2000*—this country's material prospects have never been brighter. Drawing on the knowledge of a corps of independent scientists (and carrying the imprint of both Herman Kahn and a close colleague, Julian L. Simon, a senior fellow at the Heritage Foundation), this comprehensive volume underscores the many positive forces at work: the worldwide increase in life expectancy, improvement in food supply, rise in availability (and decline in relative cost) of raw materials, and long-term improvement in the quality of air and water. Looking decades ahead, the authors conclude: "The world's people will be richer in most ways than they are today."

Finally, count among the long-term pluses the burgeoning of technology—Herman Kahn ticked off ten exciting new areas, ranging from advances in materials such as fibres, foams, ceramics, crystals, fixatives, molecular coatings, metallic compounds and plastics, to breakthroughs in biochemistry, biophysics, bioindustry and genetic engineering. He observed: "There is normally a fairly long lag between the invention of a technology and its commercial applications; there is also often a relatively long period between the time it is first marketed and the point at which it has a significant impact. Both of these lead times have been getting shorter."

Tax Cuts Sharpen Capitalist Edge

Nor is this merely pie-in-the-sky. For despite some slippage lately, U.S. tax policy in recent years—and on a fairly solid bipartisan basis—has changed from furthering consumption at any and all costs to offering some long-overdue and badly needed incentives to production, productivity, and investment.

The basic shift occurred more than half a decade ago, when Congress approved the Revenue Act of 1978. That measure had no particular claim to fame except one: for the first time in history, it lowered the capital gains tax, from an effective level of nearly 50% to 28% (now 20%).

The Revenue Act of 1978 was passed in October of that year. In 1978, 45 companies made public offerings

of equities, in the process raising $250 million. In 1979, 81 companies went public, raising $506 million. In 1980, 237 companies went public and raised $1.4 billion. In 1981, 448 companies went public, in the process raising $3.2 billion, the highest dollar figure for any single year up to that time. In 1982, despite a down market through August, 222 companies went public for the first time. They raised nearly $1.5 billion in new venture capital.

The totals for 1983 were downright staggering. According to the final figures, 889 companies made initial public offerings of common stock last year; in the process they raised $12.6 billion in new equity capital, almost four times as much as the sum raised in any previous year. Throw in another $2 to $3 billion in private venture capital deals and you can see that we're talking about $16 to $17 billion going into start-ups. That's more money than was raised for such purposes in the past 11 years combined!

The year just past, of course, was something of a downer. Nonetheless, even in this poor market climate, new offerings continue to run relatively strongly. In the first six months of 1984, some 306 companies went public for the first time, raising $2.2 billion worth of common stocks. While considerably below 1983 levels, it still adds up to roughly a $4 billion annual rate. That would be the second largest total in history.

These happen to be the highest-powered dollars around. For with all due respect to the Fortune 500, small business—that is, concerns with 500 or fewer employees—generates most of the breakthroughs in U.S. technology and creates far and away the bulk of the new job opportunities. Thanks to a farsighted and far-reaching change in the tax code, in short, the cutting edge of U.S. capitalism has never been more finely honed.

Get Ready

Nobody likes to play Pollyanna, least of all your speaker, who happens to be one of the Dow Jones Company's few duly licensed curmudgeons. Murphy's Law, which holds that anything that can go wrong, will go wrong, has not been repealed. (And let's not forget McGillicuddy's Law, which says that Murphy's a cock-eyed optimist.) All of us can think of any number of things—ranging from further explosions in the Middle East to an unexpected corporate, or banking or Third World default—that could go wrong overnight.

But don't—repeat don't—get carried away by any of the built-in biases toward economic pessimism.

And do—repeat do—get ready for the fresh opportunities, philosophic and financial alike, that promise to open up in what, with a little bit o' luck, may go down in history as the Amazing Eighties.

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